

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CHESTER TOWNSHIP</b>	County <b>OTTAWA</b>
Audit Date <b>3/31/06</b>	Opinion Date <b>5/30/06</b>	Date Accountant Report Submitted to State: <b>6/23/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

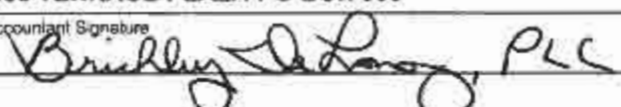
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>BRICKLEY DELONG PLC</b>			
Street Address <b>500 TERRACE PLAZA PO BOX 999</b>	City <b>MUSKEGON</b>	State <b>MI</b>	ZIP <b>49443</b>
Accountant Signature 		Date <b>6/23/06</b>	

Chester Township  
Ottawa County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended March 31, 2006

Chester Township

**TABLE OF CONTENTS**

Management's Discussion and Analysis.....	i - vii
Independent Auditors' Report.....	1
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets.....	2
Statement of Activities .....	3
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	5
Statement of Revenues, Expenditures and Changes in Fund Balances .....	6
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities .....	7
Proprietary Funds	
Statement of Net Assets.....	8
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	9
Statement of Cash Flows .....	10
Statement of Fiduciary Assets and Liabilities.....	11
Notes to Financial Statements .....	12
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund .....	23
Budgetary Comparison Schedule—Fire Fund .....	24
Budgetary Comparison Schedule—Road Fund .....	25
Budgetary Comparison Schedule—Improvement Revolving Fund .....	26
Other Supplemental Information	
Other Governmental Funds	
Combining Balance Sheet.....	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	29
Combining Statement of Assets and Liabilities—Agency Funds .....	30

As management of Chester Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of Chester Township for the fiscal year ended March 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

### FINANCIAL HIGHLIGHTS

- The General Fund balance increased by \$51,849. This increase was primarily due to reduction of transfer to other funds to conserve resources for construction of a new township hall.
- The Fire Fund purchased a used fire truck during the year for approximately \$97,000.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Township include general government, public safety, public works and cultural and recreational activities. The business-type activities of the Township include sewer services.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories—governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

Chester Township maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Fund, Road Fund and Improvement Revolving Fund, which are considered to be major funds. Individual fund data for each non-major governmental fund is provided in the supplemental information section of this report.

**Proprietary Funds.** Chester Township has one enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses the enterprise fund to account for its sewer operations. Data from the other funds are combined into a single aggregate presentation.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provided separate information for the Sewer fund, which is a major fund.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund, Fire Fund, Road Fund, and Improvement Revolving Fund.

### Government-wide Financial Analysis

The first table presented on the next page is a summary of the government-wide Statement of Net Assets for Chester Township. The current assets increased by \$78,357 due to an increase in net assets. Capital assets increased due to the purchase of a new fire truck. The business-type activities (Sewer Fund) current assets decreased due to continued repayment of debt and capital assets decreased due to normal depreciation of assets. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2006, the Township's net assets from governmental activities totaled \$1,939,093 (66.2%) and \$991,297 (33.8%) from business-type activities, creating a total government-wide net assets total of \$2,930,390.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc). These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities are \$1,249,073. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$991,297 in net assets and \$51,432 in unrestricted net assets.

### Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets and						
other assets	\$ 1,257,900	\$ 1,179,543	\$ 487,088	\$ 501,167	\$ 1,744,988	\$ 1,680,710
Capital assets	690,020	622,391	1,178,227	1,205,844	1,868,247	1,828,235
Total assets	1,947,920	1,801,934	1,665,315	1,707,011	3,613,235	3,508,945
Current liabilities	8,827	5,252	20,018	21,933	28,845	27,185
Noncurrent liabilities	-	-	654,000	661,000	654,000	661,000
Total liabilities	8,827	5,252	674,018	682,933	682,845	688,185
Net assets						
Invested in capital assets,						
net of related debt	690,020	622,391	517,227	537,844	1,207,247	1,160,235
Restricted	-	-	422,638	445,999	422,638	445,999
Unrestricted	1,249,073	1,174,291	51,432	40,235	1,300,505	1,214,526
Total net assets	\$ 1,939,093	\$ 1,796,682	\$ 991,297	\$ 1,024,078	\$ 2,930,390	\$ 2,820,760

# Chester Township

## Management's Discussion and Analysis

### Governmental Activities

Governmental activities increased by \$142,411 (8%) during the 2006 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

Property tax revenues increased primarily due to normal inflationary increases in taxable amount. Investment earnings increased due to higher interest rates. Overall revenues were down since the prior year had a large gain on the sale of land. Public safety costs increased due to an increase in fire wages, fire equipment repairs and maintenance, an increase in the sheriff patrol service contract and cost related to new street lights. Public works decreased due to less road construction done during the year.

### Business-type activities

At the end of the fiscal year, the net assets for business-type activities decreased by \$32,781 or 3%. One fund comprises the business-type activities. The decrease was \$8,479 more than the prior year primarily due to a decrease in investment income related to special assessments.

### Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	\$ 50,564	\$ 42,634	\$ 24,630	\$ 29,688	\$ 75,194	\$ 72,322
General revenues						
Property taxes	252,542	239,249	-	-	252,542	239,249
Grants and contributions	192,498	196,128	-	-	192,498	196,128
Unrestricted investment earnings	29,912	18,786	19,480	25,673	49,392	44,459
Miscellaneous	9,943	10,187	-	-	9,943	10,187
Gain on sale of assets	7,576	39,500	-	-	7,576	39,500
Total revenues	543,035	546,484	44,110	55,361	587,145	601,845
Expenses:						
General government	186,568	194,618	-	-	186,568	194,618
Public safety	162,831	130,622	-	-	162,831	130,622
Public works	39,177	51,892	-	-	39,177	51,892
Culture and recreation	12,048	8,371	-	-	12,048	8,371
Sewer Fund	-	-	76,891	79,663	76,891	79,663
Total expenses	400,624	385,503	76,891	79,663	477,515	465,166
Change in net assets	142,411	160,981	(32,781)	(24,302)	109,630	136,679
Net assets - Beginning	1,796,682	1,635,701	1,024,078	1,048,380	2,820,760	2,684,081
Net assets - Ending	\$ 1,939,093	\$ 1,796,682	\$ 991,297	\$ 1,024,078	\$ 2,930,390	\$ 2,820,760

### Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the Township's governmental funds reported a combined unreserved fund balance of \$1,226,825. This number represents the unreserved fund balance of \$305,283 in the General Fund, \$127,661 in the Fire Fund, \$500,423 in the Road Fund, \$253,463 in the Improvement Revolving Fund, \$15,259 in the Park Fund and \$24,736 in the Budget Stabilization Fund. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The remainder of the fund balance of \$22,248 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate commitments and purchase orders. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$1,249,073, which consists of a fund balance of \$314,873 in the General Fund, \$140,319 in the Fire Fund, \$500,423 in the Road Fund, \$253,463 in the Improvement Revolving Fund, \$15,259 in the Park Fund and \$24,736 in the Budget Stabilization Fund.

The General Fund had an increase in fund balance of \$51,849 due to a reduction in transfers to other funds. The Fire Fund had a decrease in fund balance of \$67,136 due to the purchase of a new fire truck and an increase in repair and maintenance costs. The Road Fund had an increase in fund balance due to limited expenditures in anticipation of a large future project.

### Proprietary Funds

The Township proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Net assets in the Sewer Fund decreased by \$32,781. This decrease is primarily the result of depreciation of the sewer capital assets.

### General Fund Budget

During the current fiscal year, the Township made a couple amendments to its original budget. The most significant of those is listed below:

- The original legal and audit budget was increased by \$8,850 due to legal expenditures related to the review of the zoning ordinances.
- The original planning budget was increased due to unanticipated costs associated with review of ordinances.

# Chester Township

## Management's Discussion and Analysis

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

### Revenues

- Intergovernmental revenues - state budget was budgeted low in anticipation of State of Michigan budget cuts that did not transpire.
- Charges for services were higher than budgeted due to higher than expected zoning charges.
- Investment earning were higher than budget due to increases in interest rates.

### Expenditures

- Legal and audit was over budget due to unanticipated legal costs at the end of the year.
- Cemetery came in under budget due to not completing all the anticipated improvement project.
- Inspections came in under budget due to a drop in construction activity. This drop in activity resulted in a drop in the associated wages.
- Capital outlay was under budget due to a drop in improvements in anticipation of moving into a new building.

### Capital Assets Administration

Chester Township's investment in capital assets for its governmental and business-type activities as of March 31, 2006 totaled \$1,868,247 (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, utility systems, equipment and vehicles. Major capital asset events during the current the year included the purchase of a used fire truck for \$96,872 and a new copy machine. The Township also sold a couple of fire trucks during the year.

#### Capital Assets (Net of Accumulated Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Land	\$ 55,700	\$ 55,700	\$ -	\$ -	\$ 55,700	\$ 55,700
Land improvements	33,518	36,039	-	-	33,518	36,039
Buildings	297,059	307,077	-	-	297,059	307,077
Equipment	37,646	37,252	-	-	37,646	37,252
Vehicles	266,097	186,323	-	-	266,097	186,323
Sewer system	-	-	1,178,227	1,205,844	1,178,227	1,205,844
Total	<u>\$ 690,020</u>	<u>\$ 622,391</u>	<u>\$ 1,178,227</u>	<u>\$ 1,205,844</u>	<u>\$ 1,868,247</u>	<u>\$ 1,828,235</u>

Additional information on the Township's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

### **Long-Term Debt**

At the end of the 2006 fiscal year, Chester Township had total outstanding revenue bonds of \$661,000. This was a decrease of \$7,000 from the prior year. These bonds will be repaid by the Sewer fund through special assessment collections and additional debt service billing.

Additional information on the Township's long-term debt can be found in Note F of the "Notes to the Financial Statements" of this report.

### **General Economic Overview**

The Township is anticipating the construction of a new township hall during 2006. Designs are being reviewed for the new building and the Township expects to bid the project some time this summer.

The General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised 80% of the General Fund revenue sources. The state revenues are affected by the State of Michigan budget along with sales tax collections. State revenue sharing is not expected to increase in fiscal year 2007. Property tax revenues are expected to increase 3 to 4 percent due to normal inflationary increases in taxable value.

### **Requests for Information**

This financial report is designed to provide a general overview of Chester Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Chester Township, 19340 32<sup>nd</sup> Avenue, Conklin, Michigan, 49403, (616) 899-5544.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

May 30, 2006

Township Board  
Chester Township  
Conklin, Michigan

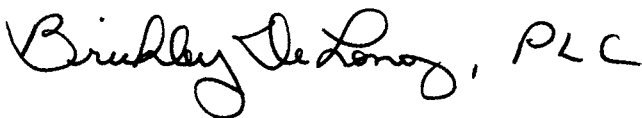
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Chester Township, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chester Township, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Chester Township, Michigan, as of March 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - vii and 23 - 26 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chester Township, Michigan's basic financial statements. The combining nonmajor governmental funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Chester Township  
**STATEMENT OF NET ASSETS**  
March 31, 2006

ASSETS

	Governmental activities	Business-type activities	Total
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 1,185,212	\$ 41,487	\$ 1,226,699
Receivables	21,228	11,729	32,957
Due from other governmental units	29,212	-	29,212
Prepaid items	22,248	-	22,248
Total current assets	1,257,900	53,216	1,311,116
<b>NONCURRENT ASSETS</b>			
Restricted assets			
Cash and investments	-	189,669	189,669
Special assessments receivable	-	239,755	239,755
Interest receivable	-	4,448	4,448
Capital assets, net			
Nondepreciable	55,700	-	55,700
Depreciable	634,320	1,178,227	1,812,547
Total noncurrent assets	690,020	1,612,099	2,302,119
Total assets	1,947,920	1,665,315	3,613,235
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	6,633	11,234	17,867
Due to other governmental units	2,194	1,784	3,978
Bonds and other obligations, due within one year	-	7,000	7,000
Total current liabilities	8,827	20,018	28,845
<b>NONCURRENT LIABILITIES</b>			
Bonds and other obligations, less amounts due within one year	-	654,000	654,000
Total liabilities	8,827	674,018	682,845
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	690,020	517,227	1,207,247
Restricted for debt service	-	422,638	422,638
Unrestricted	1,249,073	51,432	1,300,505
Total net assets	\$ 1,939,093	\$ 991,297	\$ 2,930,390

The accompanying notes are an integral part of this statement.

Chester Township  
**STATEMENT OF ACTIVITIES**  
For the year ended March 31, 2006

<i><b>Functions/Programs</b></i>	Expenses	Program Revenue	Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Governmental activities	Business-type activities	Total
Governmental activities					
General government	\$ 186,568	\$ 24,793	\$ (161,775)	\$ -	\$ (161,775)
Public safety	162,831	25,771	(137,060)	-	(137,060)
Public works	39,177	-	(39,177)	-	(39,177)
Culture and recreation	12,048	-	(12,048)	-	(12,048)
Total governmental activities	400,624	50,564	(350,060)	-	(350,060)
Business-type activities					
Sewer	76,891	24,630	-	(52,261)	(52,261)
	<u>\$ 477,515</u>	<u>\$ 75,194</u>	(350,060)	(52,261)	(402,321)
General revenues					
Property taxes			252,542	-	252,542
Grants and contributions not restricted to specific programs			192,498	-	192,498
Unrestricted investment earnings			29,912	19,480	49,392
Miscellaneous			9,943	-	9,943
Gain on sale of capital assets			7,576	-	7,576
Total general revenues			492,471	19,480	511,951
Change in net assets			142,411	(32,781)	109,630
Net assets at April 1, 2005			1,796,682	1,024,078	2,820,760
Net assets at March 31, 2006			<u>\$ 1,939,093</u>	<u>\$ 991,297</u>	<u>\$ 2,930,390</u>

The accompanying notes are an integral part of this statement.

Chester Township  
**BALANCE SHEET**  
Governmental Funds  
March 31, 2006

	General Fund	Fire Fund	Road Fund	Improvement Revolving Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>						
Cash and investments	\$ 273,559	\$ 120,566	\$ 497,613	\$ 253,463	\$ 40,011	\$ 1,185,212
Receivables						
Accounts	680	-	-	-	-	680
Taxes	7,095	6,697	6,756	-	-	20,548
Due from other governmental units	28,814	398	-	-	-	29,212
Prepaid items	9,590	12,658	-	-	-	22,248
Total assets	<u>\$ 319,738</u>	<u>\$ 140,319</u>	<u>\$ 504,369</u>	<u>\$ 253,463</u>	<u>\$ 40,011</u>	<u>\$ 1,257,900</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities						
Accounts payable	\$ 2,687	\$ -	\$ 3,946	\$ -	\$ -	\$ 6,633
Due to other governmental units	2,178	-	-	-	16	2,194
Total liabilities	4,865	-	3,946	-	16	8,827
Fund balances						
Reserved for prepaid items	9,590	12,658	-	-	-	22,248
Unreserved						
Undesignated, reported in						
General Fund	305,283	-	-	-	-	305,283
Special revenue funds	-	127,661	500,423	253,463	39,995	921,542
Total fund balances	314,873	140,319	500,423	253,463	39,995	1,249,073
Total liabilities and fund balances	<u>\$ 319,738</u>	<u>\$ 140,319</u>	<u>\$ 504,369</u>	<u>\$ 253,463</u>	<u>\$ 40,011</u>	<u>\$ 1,257,900</u>

The accompanying notes are an integral part of this statement.

Chester Township  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**  
March 31, 2006

Total fund balance—governmental funds	\$ 1,249,073
---------------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 880,438	
Accumulated depreciation	<u>(190,418)</u>	<u>690,020</u>

Net assets of governmental activities in the Statement of Net Assets	\$ <u><u>1,939,093</u></u>
--	----------------------------

The accompanying notes are an integral part of this statement.

Chester Township  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended March 31, 2006

	General Fund	Fire Fund	Road Fund	Improvement Revolving Fund	Other governmental funds	Total governmental funds
REVENUES						
Property taxes	\$ 70,296	\$ 90,724	\$ 91,522	\$ -	\$ -	\$ 252,542
Licenses and permits	21,547	-	-	-	-	21,547
Intergovernmental revenues - state	189,604	-	2,894	-	-	192,498
Charges for services	29,017	-	-	-	-	29,017
Investment earnings	6,849	2,250	12,894	7,429	490	29,912
Other	6,368	3,575	-	-	-	9,943
Total revenues	323,681	96,549	107,310	7,429	490	535,459
EXPENDITURES						
Current						
General government	173,355	-	-	-	-	173,355
Public safety	47,244	80,813	-	-	-	128,057
Public works	12,541	-	26,636	-	-	39,177
Culture and recreation	-	-	-	-	8,524	8,524
Other governmental functions	19,226	-	-	-	-	19,226
Capital outlay	4,466	96,872	-	-	-	101,338
Total expenditures	256,832	177,685	26,636	-	8,524	469,677
Excess of revenues over (under) expenditures	66,849	(81,136)	80,674	7,429	(8,034)	65,782
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	-	9,000	-	-	-	9,000
Transfers in	-	5,000	-	-	10,000	15,000
Transfers out	(15,000)	-	-	-	-	(15,000)
Total other financing sources (uses)	(15,000)	14,000	-	-	10,000	9,000
Net change in fund balances	51,849	(67,136)	80,674	7,429	1,966	74,782
Fund balances at April 1, 2005	263,024	207,455	419,749	246,034	38,029	1,174,291
Fund balances at March 31, 2006	\$ 314,873	\$ 140,319	\$ 500,423	\$ 253,463	\$ 39,995	\$ 1,249,073

The accompanying notes are an integral part of this statement.

Chester Township  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended March 31, 2006

Net change in fund balances—total governmental funds:	\$	74,782
---	----	--------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$	(32,285)	
Capital outlay		<u>101,338</u>	69,053

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.

(1,424)

Change in net assets of governmental activities	\$	<u><u>142,411</u></u>
---	----	-----------------------

The accompanying notes are an integral part of this statement.

## ASSETS

The accompanying notes are an integral part of this statement.

Chester Township  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
 Proprietary Fund  
 For the year ended March 31, 2006

	Business-type activities - <u>Enterprise Fund</u> <u>Sewer</u>
REVENUES	
Charges for services	\$ 24,630
OPERATING EXPENSES	
Administration	213
Operations	15,624
Depreciation	<u>27,617</u>
Total operating expenses	<u>43,454</u>
Operating loss	(18,824)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	19,480
Interest expense	<u>(33,437)</u>
Total nonoperating expenses	<u>(13,957)</u>
Change in net assets	(32,781)
Net assets at April 1, 2005	<u>1,024,078</u>
Net assets at March 31, 2006	\$ <u><u>991,297</u></u>

The accompanying notes are an integral part of this statement.

Chester Township  
**STATEMENT OF CASH FLOWS**  
 Proprietary Funds  
 For the year ended March 31, 2006

	Business-type activities - <u>Enterprise Fund</u> <u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 34,373
Payments to suppliers	(17,539)
Payments to employees	<u>(1,004)</u>
Net cash provided by operating activities	15,830
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Special assessments	14,505
Principal paid on capital debt	(7,000)
Interest paid on capital debt	<u>(33,615)</u>
Net cash used for capital and related financing activities	(26,110)
CASH FLOW FROM INVESTING ACTIVITIES	
Investment earnings	<u>17,932</u>
Net increase in cash and investments	7,652
Cash and investments at April 1, 2005	<u>223,504</u>
Cash and investments at March 31, 2006	\$ <u><u>231,156</u></u>
Reconciliation of cash and investments to the balance sheet	
Cash and investments	\$ 41,487
Restricted assets	<u>189,669</u>
	\$ <u><u>231,156</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (18,824)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	27,617
Change in assets and liabilities	
Receivables, net	9,743
Internal balances	(969)
Due to other governmental units	<u>(1,737)</u>
Net cash provided by operating activities	\$ <u><u>15,830</u></u>

The accompanying notes are an integral part of this statement.

Chester Township  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
March 31, 2006

	<u>Agency funds</u>
<b>ASSETS</b>	
Cash and investments	\$ <u><u>3,310</u></u>
<b>LIABILITIES</b>	
Deposits held for others	\$ <u><u>3,310</u></u>

The accompanying notes are an integral part of this statement.

Chester Township  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Chester Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

***Reporting Entity***

The Township is a municipal corporation governed by an elected five-member Board. Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Chester Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued***

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund is used to account for a special tax millage levied by the Township for the operation of the fire department.

The Road Fund is used to account for property tax revenues levied to construct and maintain the streets of the Township.

The Improvement Revolving Fund is used to account for transfers from the General Fund to help fund future capital improvement projects in the Township.

The Township reports the following major proprietary fund:

The Sewer Fund accounts for the operation of the Township's sanitary sewer system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Township's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Chester Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued***

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

***Assets, Liabilities and Net Assets or Equity***

**Deposits and Investments**

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

Chester Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Receivables and Payables—Continued**

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the Township totaled approximately \$61,000,000. The ad valorem taxes levied consisted of .9674, 1.4841 and 1.4966 mills for the Township's general operations, fire protection and road improvements. These amounts are recognized in the respective General Fund, Fire Fund and Road Fund.

**Inventories and Prepaid Items**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**

Certain proceeds of the Sewer Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Chester Township  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
March 31, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Capital Assets—Continued**

Property, plant and equipment of the primary government, is depreciated or amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	10-40
Equipment	5-15
Vehicles	10-20
Utility systems	50

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Chester Township  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
March 31, 2006

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to March 31, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Prior to March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Township Clerk may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level. The Township Board made several supplemental budgetary appropriations throughout the year.

**Excess of Expenditures Over Appropriations**

During the year ended March 31, 2006, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
Legal and audit	\$ 28,850	\$ 31,109
Law enforcement	12,900	14,479
Street lighting	5,500	6,342

**NOTE C—DEPOSITS AND INVESTMENTS**

**Interest rate risk.** The Township's investment policy limits investment maturities of various types of investments to various lengths as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Township has no investment policy that would further limit its investment choices.

Chester Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2006

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Concentration of credit risk.** The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, \$1,319,741 of the Township's bank balance of \$1,419,741 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The Township is not authorized to invest in investments which have this type of risk.

**Restricted Assets**

The Sewer Fund collects a special assessment from each customer and is required to maintain the accumulated balances in a separate debt service reserve account. The balance at March 31, 2006 is \$194,117.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 55,700	\$ -	\$ -	\$ 55,700
<b>Capital assets, being depreciated:</b>				
Land improvements	50,405	-	-	50,405
Buildings	394,765	-	-	394,765
Equipment	55,973	4,466	-	60,439
Vehicles	250,736	96,872	28,480	319,128
Total capital assets, being depreciated	751,879	101,338	28,480	824,737

Chester Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2006

**NOTE D—CAPITAL ASSETS—Continued**

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
<b>Governmental activities:—Continued</b>				
<b>Less accumulated depreciation:</b>				
Land improvements	\$ 14,366	\$ 2,521	\$ -	\$ 16,887
Buildings	87,688	10,018	-	97,706
Equipment	18,721	4,072	-	22,793
Vehicles	64,413	15,674	27,056	53,031
	<u>185,188</u>	<u>32,285</u>	<u>27,056</u>	<u>190,417</u>
Total accumulated depreciation	<u>185,188</u>	<u>32,285</u>	<u>27,056</u>	<u>190,417</u>
Total capital assets being depreciated, net	<u>566,691</u>	<u>69,053</u>	<u>1,424</u>	<u>634,320</u>
Capital assets, net	<u>\$ 622,391</u>	<u>\$ 69,053</u>	<u>\$ 1,424</u>	<u>\$ 690,020</u>
<b>Business-type activities:</b>				
<b>Capital assets, being depreciated:</b>				
Utility systems	\$ 1,380,850	\$ -	\$ -	\$ 1,380,850
<b>Less accumulated depreciation:</b>				
Utility systems	175,006	27,617	-	202,623
	<u>1,205,844</u>	<u>(27,617)</u>	<u>-</u>	<u>1,178,227</u>
Total capital assets being depreciated, net	<u>1,205,844</u>	<u>(27,617)</u>	<u>-</u>	<u>1,178,227</u>
Capital assets, net	<u>\$ 1,205,844</u>	<u>\$ (27,617)</u>	<u>\$ -</u>	<u>\$ 1,178,227</u>

**Depreciation**

Depreciation expense has been charged to functions as follows:

<b>Governmental activities:</b>	
General government	\$ 3,693
Public safety	25,791
Culture and recreation	2,801
	<u>\$ 32,285</u>
<b>Business-type activities:</b>	
Sewer	<u>\$ 27,617</u>

Chester Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 March 31, 2006

**NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**Interfund transfers:**

During the year ended March 31, 2006, the General Fund transferred \$5,000 to the Fire Fund and \$10,000 to the Park Fund to subsidize their activities.

**NOTE F—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Township for the year ended March 31, 2006.

	Balance April 1, 2005	Additions	Reductions	Balance March 31, 2006	Due within one year
<b>Business-type activities:</b>					
Revenue bonds	\$ 668,000	\$ -	\$ 7,000	\$ 661,000	\$ 7,000

The \$733,000 Ottawa County Wastewater Collection bonds of 1996 are due in installments ranging from \$7,000 to \$35,000 through June 2035. Interest is due semi-annually at 5.125 percent.

The Township was in compliance in all material respects with all the revenue bond ordinances at March 31, 2006.

Annual debt service requirements to maturity for debt outstanding as of March 31, 2006 follows:

Year ending March 31,	Business-type activities	
	Principal	Interest
2007	\$ 7,000	\$ 33,697
2008	7,000	33,338
2009	7,000	32,979
2010	8,000	32,595
2011	11,000	32,108
2012-2016	73,000	150,650
2017-2021	98,000	128,074
2022-2026	125,000	100,323
2027-2031	150,000	64,062
2032-2036	175,000	22,424
	<u>\$ 661,000</u>	<u>\$ 630,250</u>

Chester Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2006

**NOTE G—OTHER INFORMATION**

**Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township manages its liability and property insurance by participating in the Michigan Township Participating Plan (MTPP), a public entity risk pool providing liability and property coverage to its participating members. The Township pays an annual premium to MTPP for its insurance coverage. The MTPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township manages its workers' compensation risk by participating in the Michigan Municipal League Workers' Compensation Insurance Fund (MMLWCIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Township pays an annual premium to MMLWCIF for its workers' compensation coverage. The MMLWCIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

**NOTE H—PENSION PLANS**

**Defined Compensation Plan**

The Township provides pension benefits for its supervisor, treasurer, clerk and board members through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan is administered through Symetra Financial, an independent third party. The Township contributes between \$600 and \$1,000 on behalf of the board members, depending on their position with the Township. The board members are not required to contribute to the Plan. For the year ended March 31, 2006, pension expense was \$4,200. Board members did not contribute to the Plan.

**NOTE I—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 59 percent of General Fund revenues.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Chester Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended March 31, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 71,600	\$ 71,600	\$ 70,296	\$ (1,304)
Licenses and permits	20,000	20,000	21,547	1,547
Intergovernmental revenues - state	160,000	160,000	189,604	29,604
Charges for services	23,700	23,700	29,017	5,317
Investment earnings	2,000	2,000	6,849	4,849
Other	4,000	4,000	6,368	2,368
Total revenues	281,300	281,300	323,681	42,381
EXPENDITURES				
Current				
General government				
Township board	5,284	5,284	4,681	603
Supervisor	15,872	15,872	15,472	400
Assessor	16,950	16,950	16,574	376
Legal and audit	20,000	28,850	31,109	(2,259)
Clerk	20,100	20,100	19,330	770
Board of review	850	1,660	1,233	427
General administration	43,250	43,150	43,988	(838)
Treasurer	19,500	19,500	19,965	(465)
Elections	1,770	1,770	1,463	307
Buildings and grounds	18,400	18,400	15,904	2,496
Cemetery	7,000	7,000	3,636	3,364
Public safety				
Law enforcement	12,900	12,900	14,479	(1,579)
Inspections	17,700	17,700	13,910	3,790
Planning	5,500	8,000	6,991	1,009
Zoning	12,500	12,500	11,864	636
Public works				
Drains	2,000	2,000	-	2,000
Highways, streets and bridges	3,000	3,000	237	2,763
Street lighting	5,500	5,500	6,342	(842)
Weed control	6,000	6,000	5,962	38
Other governmental functions	19,200	19,200	19,226	(26)
Capital outlay	9,000	9,000	4,466	4,534
Total expenditures	262,276	274,336	256,832	17,504
Excess of revenues over expenditures	19,024	6,964	66,849	59,885
OTHER FINANCING USES				
Transfers out	(15,000)	(15,000)	(15,000)	-
Net change in fund balance	\$ 4,024	\$ (8,036)	51,849	\$ 59,885
Fund balance at April 1, 2005			263,024	
Fund balance at March 31, 2006			\$ 314,873	

Chester Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**

Fire Fund  
For the year ended March 31, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 87,000	\$ 87,000	\$ 90,724	\$ 3,724
Investment earnings	2,000	2,000	2,250	250
Other	-	-	3,575	3,575
Total revenues	89,000	89,000	96,549	7,549
EXPENDITURES				
Current				
Public safety	81,712	81,712	80,813	899
Capital outlay	6,000	106,000	96,872	9,128
Total expenditures	87,712	187,712	177,685	10,027
Excess of revenues over (under) expenditures	1,288	(98,712)	(81,136)	17,576
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	-	9,000	9,000
Transfers in	5,000	5,000	5,000	-
Total other financing sources	5,000	5,000	14,000	9,000
Net change in fund balance	\$ 6,288	\$ (93,712)	(67,136)	\$ 26,576
Fund balance at April 1, 2005			207,455	
Fund balance at March 31, 2006			\$ 140,319	

Chester Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Road Fund  
For the year ended March 31, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u></u>
REVENUES				
Property taxes	\$ 88,000	\$ 88,000	\$ 91,522	\$ 3,522
Intergovernmental revenues - state	3,000	3,000	2,894	(106)
Investment earnings	<u>5,000</u>	<u>5,000</u>	<u>12,894</u>	<u>7,894</u>
Total revenues	96,000	96,000	107,310	11,310
EXPENDITURES				
Current				
Public works	<u>51,200</u>	<u>51,200</u>	<u>26,636</u>	<u>24,564</u>
Net change in fund balance	\$ <u><u>44,800</u></u>	\$ <u><u>44,800</u></u>	80,674	\$ <u><u>35,874</u></u>
Fund balance at April 1, 2005			<u>419,749</u>	
Fund balance at March 31, 2006			\$ <u><u>500,423</u></u>	

Chester Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Improvement Revolving Fund  
For the year ended March 31, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u></u>
REVENUES				
Investment earnings	\$ 3,200	\$ 3,200	\$ 7,429	\$ 4,229
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	\$ <u>3,200</u>	\$ <u>3,200</u>	7,429	\$ <u>4,229</u>
Fund balance at April 1, 2005			<u>246,034</u>	
Fund balance at March 31, 2006			\$ <u>253,463</u>	

## **OTHER SUPPLEMENTAL INFORMATION**

Chester Township  
**COMBINING BALANCE SHEET**  
 Other Governmental Funds  
 March 31, 2006

	Total other governmental funds	Special Revenue	Budget Stabilization
		Park	
ASSETS			
Cash and investments	\$ 40,011	\$ 15,275	\$ 24,736
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other governmental units	\$ 16	\$ 16	\$ -
Fund balances			
Unreserved			
Undesignated	39,995	15,259	24,736
Total liabilities and fund balances	\$ 40,011	\$ 15,275	\$ 24,736

Chester Township  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Other Governmental Funds  
 For the year ended March 31, 2006

	Total other governmental funds	Special Revenue	Budget Stabilization
		Park	
REVENUES			
Investment earnings	\$ 490	\$ 107	\$ 383
EXPENDITURES			
Current			
Culture and recreation	8,524	8,524	-
Excess of revenues over (under) expenditures	(8,034)	(8,417)	383
OTHER FINANCING SOURCES			
Transfers in	10,000	10,000	-
Net change in fund balances	1,966	1,583	383
Fund balances at April 1, 2005	38,029	13,676	24,353
Fund balances at March 31, 2006	\$ 39,995	\$ 15,259	\$ 24,736

Chester Township  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES**  
 Agency Funds  
 March 31, 2006

	<u>Total agency funds</u>	<u>Trust Account</u>	<u>Tax Account</u>
ASSETS			
Cash and investments	\$ <u>3,310</u>	\$ <u>3,075</u>	\$ <u>235</u>
LIABILITIES			
Deposits held for others	\$ <u>3,310</u>	\$ <u>3,075</u>	\$ <u>235</u>

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

May 30, 2006

Township Board  
Chester Township  
Conklin, Michigan

In planning and performing our audit of the financial statements of Chester Township for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Chester Township's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Township Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## REPORTABLE CONDITIONS

### *General*

Recommendation 1: All journal entries should have adequate supporting documentation and should have documented approval by an appropriate Township official.

During our audit testing, we noted that supporting documentation and documented proper approval of journal entries did not exist for all journal entries.

The maintenance of files with supporting documentation and documented approval of all journal entries would ensure that appropriate documentation would be available for review on request.

Recommendation 2: The accounts receivable subsidiary ledger for the Sewer Fund should be reconciled to the general ledger on a monthly basis.

During our testing, we noted that the Sewer Fund accounts receivable subsidiary was not reconciled to the general ledger. This caused significant time at year end to analyze and adjust the account balance. Failure to timely prepare reconciliations, increases the possibility of errors or the misappropriation of funds to go undetected.

The performance of monthly reconciliations would increase the accuracy of the monthly financial statements and reduce the opportunity for errors or misappropriations to go undetected.